Supreme Court, U.S.
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No. 07-75

IN THE

Supreme Court of the United States

RFR INDUSTRIES, INC., PETITIONER

v.

REX-HIDE INDUSTRIES, INC.; CENTURY STEPS, INC. (DOING BUSINESS AS CENTURY PRECAST)

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether patent rights can be extinguished through contractual circuity of indemnity when it is clear that an indemnity contract was not formed under established concepts of contract law?

2. Whether a putative offer for sale affecting patent rights should be determined by applying established concepts of contract law or should instead be interpreted by applying a totality of the circumstances test?

RULE 29.6

Petitioner RFR Industries, Inc. has no parent corporations, and there are no publicly held companies that hold 10% or more of petitioner's stock

TABLE OF CONTENTS

Page

QUESTIONS PRESENTED i

RULE 29.6 ii

TABLE OF AUTHORITIES iv

OPINIONS BELOW 1

JURISDICTION 1

RELEVANT PROVISIONS INVOLVED 1

STATEMENT 3

REASONS FOR GRANTING THE PETITION 6

CONCLUSION 19

APPENDIX

Circuit Court Opinion 1a
District Court Decision 17a
Order Denying Rehearing 25a

TABLE OF AUTHORITIES

Page

CASES

ASIA PAC. INDUS. CORP. v. RAINFOREST CAFE, INC., 380 F.3D 383 (8TH CIR. 2004) 13

AXELSON, INC. v. MCEVOY-WILLIS, 7 F.3D 1230 (5TH CIR. 1993) 7

BARNES v. GORMAN, 536 U.S. 181 (U.S. 2002) 17

CARROLLTON-FARMERS BRANCH INDEPENDENT SCHOOL DIST. v. FEDERAL DEPOSIT INS. CORP., 776 F. SUPP. 1180 (D. TEX. 1991) 12

GROUP ONE, LTD. v. HALLMARK CARDS, INC., 254 F.3D 1041 (FED. CIR. 2001) ..... *passim*

GULF STATES UTILS. CO. v. NEI PEEBLES ELEC. PRODS., 819 F. SUPP. 538 (D. LA. 1993) 10

J. B. WATKINS LAND MORTG. CO. v. CAMPBELL, 100 TEX. 542 (TEX. 1907) 9

KSR INT'L CO. v. TELEFLEX INC., 127 S. CT. 1727 (U.S. 2007) 11

LEASEWAY DISTRIBUTION CTRS., INC. v. OHIO DEP'T OF ADMIN. SERVS., 49 OHIO APP. 3D 99, 550 N.E.2D 955 (OHIO. CT. APP. 1988) 8

LINEAR TECH. CORP. v. MICREL, INC., 275 F.3D 1040 (FED. CIR. 2001) 17, 18

LUCAS v. PATTON, 49 TEX. CIV. APP. 62 (TEX. APP. 1908) 9

LUDEN'S INC. V. LOCAL UNION NO. 6 OF THE BAKERY, CONFECTIONERY & TOBACCO WORKERS INT'L UNION, 28 F.3D 347 (3D CIR. 1994) 13

PFAFF V. WELLS ELECTRONICS, INC., 525 U.S. 55 (1998) 6, 14, 15, 17

PHICO INS. CO. V. PROVIDERS INS. CO., 888 F.2D 663 (10TH CIR. 1989) 12

PLUMTREE SOFTWARE, INC. V. DATAMIZE, LLC, 473 F.3D 1152 (FED. CIR. 2006) 18

TNT PROPS., LTD. V. TRI-STAR DEVELOPERS LLC, 677 N.W.2D 94 (MINN. CT. APP. 2004) 13

UNIVERSAL STUDIOS V. VIACOM INC., 705 A.2D 579 (DEL. CH. 1997) 16

WALLACE V. RAMON, 82 S.W.3D 501 (TEX. APP.--SAN ANTONIO 2002) 8

STATUTES

28 U.S.C. § 1254(1) 1

35 U.S.C. § 102(b) 2

35 U.S.C. § 282 11

UNIFORM COMMERCIAL CODE § 2207 10

OTHER AUTHORITIES

WILLISTON ON CONTRACTS § 4:13 18

OPINIONS BELOW

The opinion of the Federal Circuit is unofficially reported at 2007 U.S. App. LEXIS 7015 and is reprinted at App. 1a-16a. The order denying the petition for rehearing is unofficially reported at 2007 U.S. App. LEXIS 11665 and is reprinted at App. 25a-26a. The district court's memorandum opinion and order containing findings of fact and conclusions of law and amended judgment is unofficially reported at 2005 U.S. Dist. LEXIS 16496 and is reprinted at App. 17a-24a.

JURISDICTION

The judgment of the Federal Circuit was entered on March 23, 2007. Petitioners timely filed a petition for rehearing, which was denied on April 18, 2007. The Petition for Writ of Certiorari is due on July 17, 2007. This Court has jurisdiction under 28 U.S.C. § 1254(1).

RELEVANT PROVISIONS INVOLVED

None.

STATEMENT

Patent rights are important both to individual and corporate patent owners and to the United States economy as a whole. Patent rights frequently are the subject of contractual rights and obligations, such as transfers of ownership, licenses, and settlement agreements. Patent rights and contract rights also fall into close relationship in other contexts affecting the

very existence of substantive patent rights, such as patent invalidating offers for sale under the 35 U.S.C. § 102(b) on sale bar, and patent extinguishing circuity of contractual indemnity as alleged in the instant case. It is important that the body of contract law that affects substantive patent rights remain stable and predictable so that individuals and corporations may plan their business and litigation activities with a reasonable degree of confidence. In this case, the Federal Circuit did not apply established concepts of contract law to documents affecting RFR's patent rights, thereby holding that circular contractual indemnity existed, which extinguished RFR's valuable patent rights. The holding of the Federal Circuit is contrary to this Court's approach in another area where patent and contract rights intersect - the 35 U.S.C. § 102(b) on sale bar context where this Court held that an offer must meet the requirements of a commercial offer for sale. The Federal Circuit's holding decreases the uniformity of patent law and increases the unpredictability of substantive patent rights.

RFR is an assignee of United States Patent Numbers 5,577,662 ("the '662 Patent) and 5,535,947 ("the '947 Patent). The '662 Patent is directed to an embedded railway track system and the '947 patent is directed to a method for installing an embedded railway track system. RFR sued Century for patent infringement and settled. In the settlement agreement, Bill Hull (a named inventor) and RFR released Century. Further, RFR (only) granted Century indemnity for claims that might be brought against Century's extruder, Rex-Hide. The settlement agreement also expressly stated that nothing in the

settlement agreement was to be construed as a release of RFR's claims against Rex-Hide.

RFR then sued Rex-Hide for patent infringement. Rex-Hide claimed that Century owed Rex-Hide, *inter alia*, contractual indemnity. Rex-Hide further claimed that since RFR owed Century indemnity, RFR's patent infringement claims against Rex-Hide were extinguished through circular indemnity. Century initially took the position in pleadings and motions that it did not owe Rex-Hide contractual indemnity.[1] However, after the trial court ruled that RFR owed Century indemnity, Century completely flip-flopped on its position and agreed that it owed Rex-Hide contractual indemnity.

A bench trial was held on, *inter alia*, the issue of whether Century owed Rex-Hide contractual indemnity. The evidence at trial indicated that Rex-Hide sent Century a quotation form, Century responded with a purchase order, Rex-Hide manufactured the product and sent an invoice to Century, and Century paid the invoice. There was no written contract of indemnity agreed to by the parties, and the only indemnity terms were contained in the quotation form that was sent to Century by Rex-Hide.

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[1] In paragraph 12 of Century's Answer to Rex-Hide's First Amended Third Party Complaint (JA0090), Century denied any contractual indemnity obligation to Rex-Hide. Further, Century in a reply brief in support of its motion for judgment on the pleadings under Rule 12(c) denied that the "quotation" relied upon by Rex-Hide established contractual indemnity. (JA0126). ("JA" references refer to the joint appendix filed with the Federal Circuit Court of Appeals and not to the appendix filed with this Court.)

There was no other evidence of any indemnity terms or agreement, either written or oral, between Rex-Hide and Century other than what was in the quotation form. The back of the quotation form contains form language stating in relevant part as follows (JA0185):

> 1. This proposal is for immediate acceptance only and is subject to change at any **time before orders are accepted by us. This proposal and our acceptance of your orders, signed by an authorized representative of our Company, together with your order, constitutes the entire contract between us.** Modifications, changes, additions, cancellations or suspensions will not be binding on us unless accepted by an authorized representative of our Company in writing upon terms which will indemnify us against all loss.... (emphasis added).

The quotation form specifically reserved to Rex-Hide final acceptance of any purchase order and conditioned the formation of any contract on the signature of a Rex-Hide representative accepting the purchase order. The quotation form therefore was incapable of being accepted by Century to form a contract both under Texas law and under established concepts of contract law. Chris McCurry, the secretary/treasurer of Rex-Hide agreed that the Rex-Hide quotation language indicates that the contract is not formed until the Century purchase order was accepted by Rex-Hide. (JA0648, line 22).

The district court found as a matter of fact that "[b]y issuing the purchase order, Century accepted

Section 8 [the indemnity terms in the quotation form], along with all the terms and conditions in the quotation contracts" and "[t]hus the Rex-Hide quotations became the contracts between Rex-Hide and Century for the manufacture of the flangeway filler." (App. 20a-21a). The district court concluded as a matter of law that "Century accepted the terms of Rex-Hide's quotation form" and "[t]herefore, the quotation form constitutes a binding contract between Rex-Hide and Century for the sale of flangeway filler." (App. 21a). The district court cited no contract law in support of this conclusion. The district court's overall conclusion was that "[t]he Court's ruling in this Memorandum Opinion Order that Century must indemnify Rex-Hide combined with this Court's January 13, 2005 ruling that RFR must indemnify Century from any Rex-Hide claims against Century arising from any RFR claim against Rex-Hide creates a circular indemnity that extinguishes RFR's patent-infringement claims against Rex-Hide." (App. 22a).

The Federal Circuit affirmed the district court, but did not state that Century accepted the quotation form and its indemnity terms. Rather, the Federal Circuit stated that "[a]fter receiving Rex-Hide's quotation form, Century sent Rex-Hide a purchase order for the flangeway filler, which was accepted by Rex-Hide." (App. 8a). Therefore, according to the Federal Circuit, the "acceptance" was of the purchase order, which did not contain any indemnity terms. The Federal Circuit then responded to RFR's argument "that the quotation form was not an offer that could be accepted by Century because the quotation form reserved the final right of acceptance to Rex-Hide" by stating that "[b]ut even if the quotation form was not

an offer, RFR has not provided this court with any basis to assign error to the district court's determination that the terms on the quotation form became part of the contract." (App. 9a). The Federal Circuit did not address the point that the district court found the quotation indemnity terms were part of the contract only because the quotation was the offer that was accepted, and if the quotation form was not the offer, then there would be no basis for the indemnity terms to be part of the contract. Further, the Federal Circuit cited no contract law to support its conclusion. In short, the Federal Circuit opinion contains no legally justifiably basis for why contractual indemnity was found and why RFR's valuable patent rights were extinguished.

REASONS FOR GRANTING THE PETITION

This Court in *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55 (1998) eliminated the Federal Circuit's "totality of the circumstances" analysis of the on-sale bar and replaced it with a test requiring a commercial offer for sale. Following *Pfaff*, the Federal Circuit in *Group One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041 (Fed. Cir. 2001), made it clear that "[o]nly an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under § 102(b)." *Id.* at 1047.

This Court should grant writ of certiorari in the instant case to declare that the same established rules of contact law that now govern offers for sale under § 102(b) also govern offers for sale in other contractual situations where substantive patent rights are affected.

If established concepts of contract law are applied in the instant case, then contractual circular indemnity *does not exist and RFR's patent rights against* Rex-Hide are not extinguished.

The decision of the Federal Circuit Court of Appeals – that the indemnity terms in Rex-Hide's quotation became binding on Century - conflicts with well established concepts of contract law. It also conflicts with this Court's policy to interpret patent rights in light of these established concepts of contract law instead of under an amorphous "totality of the circumstances" test. Further, the opinion of the Federal Circuit conflicts with the legal principle that patents are presumed to be valid.

RFR argued below that circular indemnity did not exist because Rex-Hide's quotation form (containing the only indemnity terms) reserved the right of acceptance to Rex-Hide and therefore was not an offer that could be accepted by Century's act of sending the purchase order. This argument is fully supported by Texas law and by established concepts of contract law. *See Axelson, Inc. v. McEvoy-Willis*, 7 F.3d 1230, 1233 (5th Cir. 1993) (under Texas law, price quotation requiring seller to accept order could not be an offer, but only invitation for an offer). Indeed, it has been expressly held that the **exact same language** contained in the Rex-Hide quotation form does not constitute an offer. In *Mantaline Corp. v. PPG Indus.*, 2000 U.S. App. LEXIS 14036 (6th Cir., 2000)(unpublished) (JA0803-JA0809), the Sixth Circuit Court of Appeals reviewed a quotation form with language that was **exactly** the same as the first three sentences in paragraph 1 of the Rex-Hide quotation

form. The court held that the terms in the quotation form did not become part of any contract between the parties because the quotation form did not constitute an offer. After quoting the quotation form language, the court stated as follows:

> The district court correctly determined that Mantaline's price quotation form did not constitute a "formal 'offer' under traditional contract analysis." "An 'offer'," as the district court explained, "has been defined in Ohio case law as the 'manifestation of willingness to enter into a bargain, so made as to justify another person in understanding that his assent to that bargain is invited and will conclude it.'" *See Leaseway Distribution Ctrs., Inc. v. Ohio Dep't of Admin. Servs.*, 49 Ohio App. 3d 99, 550 N.E.2d 955, 961 (Ohio. Ct. App. 1988) (quoting RESTATEMENT (SECOND) OF CONTRACTS § 24 (1981)). The Mantaline form specifically reserved to Mantaline final acceptance of any purchase order and conditioned the formation of any contract on the signature of a Mantaline representative accepting the purchase order.

The result should be the same in the instant case because an offer is defined the same under Ohio law, under Texas law, and under established concepts of contract law. *See W. Sur. Co. v. Medsolutions, Inc.*, 2003 U.S. Dist. LEXIS 1570, 10-14 (N.D. Tex. 2003) (citing *Wallace v. Ramon*, 82 S.W.3d 501, 506 (Tex. App.--San Antonio 2002) (Lopez, J., dissenting) (citing RESTATEMENT (SECOND) OF CONTRACTS § 24 (1981) (the manifestation of the "willingness to enter

into a bargain so made as to justify another person in understanding that his assent to the bargain is invited and will conclude it"))). Further, under Texas law, quotations or proposals containing language that "distinctly reserve[] to the company the right to accept" are not offers capable of being accepted to form binding contracts. *See J. B. Watkins Land Mortg. Co. v. Campbell*, 100 Tex. 542, 544-545 (Tex. 1907); *Lucas v. Patton*, 49 Tex. Civ. App. 62, 70 (Tex. App. 1908) ("may be willing" proposal not an enforceable offer because seller "reserve[d] to himself the right to refuse.").

The Federal Circuit did not reject RFR's argument, but rather responded that "[b]ut even if the quotation form was not an offer, RFR has not provided this court with any basis to assign error to the district court's determination that the terms on the quotation form became part of the contract." (App. 9a). This statement by the Federal Circuit provides the reasons why this Court should grant this petition for writ of certiorari.

RFR provided a clear basis under Texas law and established concepts of contract law to assign error to the district court's determination. Indeed, the district court determined that the terms on the quotation form became part of the contract for the specific reason that "[b]y issuing the purchase order, Century accepted Section 8 [the indemnity terms in the quotation form], along with all the terms and conditions in the quotation contracts." (App. 20a-21a). The district court therefore determined that the quotation was the offer and the purchase order was the acceptance of the quotation and its terms. But if the quotation was not the offer as conceded *arguendo* by the Federal Circuit, then the

sole basis for the "district court's determination that the terms on the quotation form became part of the contract" no longer existed, at least under Texas law and established concepts of contract law.[2]

Nevertheless, the Federal Circuit still stated that RFR did not provide a basis to assign error. Therefore, it is clear that the Federal Circuit affirmed the district court's determination on some basis other than an application of Texas contract law and established concepts of contract law. Indeed, neither the district court nor the Federal Circuit cited a single contract law authority in their analysis, and their conclusions cannot be justified under Texas contract law or under established concepts of contract law.

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[2] The district court also stated that "Century's purchase order did not contradict, nor was it inconsistent with, Rex-Hide's quotation form." (App. 20a). This factual finding is not relevant to contract formation. Uniform Commercial Code § 2207 eliminated the common law rule that the acceptance must constitute a "mirror image" of the offer for a contract to be formed under the terms of the offer. However, "courts nonetheless must continue to first look to the common law to determine which communication constituted the "offer" in order to apply the provisions of Section 2207." *See Gulf States Utils. Co. v. NEI Peebles Elec. Prods.*, 819 F. Supp. 538, 549 (D. La. 1993). Therefore, since the quotation was not an offer, it made no difference that "Century's purchase order did not contradict, nor was it inconsistent with, Rex-Hide's quotation form." Further, to the extent that the conduct of Rex-Hide and Century was relevant to contract formation, under 2207(3), the contract would consist of the terms upon which the parties' writings agree and the terms supplied by operation of law. Since the parties' writings in this case do not agree on indemnification and because the UCC otherwise does not supply such terms by operation of law, Rex-Hide's indemnification provisions did not become part of the contract under § 2207(3). *Id.* at 552.

RFR's valuable and constitutionally based patent rights have been "extinguished" through so-called "circular contractual indemnity" and not a single contract law authority has been cited or followed. Therefore, this case should not be viewed merely as a simple failure to properly apply state or established concepts of contract law. Rather, this case should be viewed as (1) an improper rejection of the presumptive validity of patent rights and (2) the establishment of a standard that replaces applicable state contract law and established concepts of contract law with a totality of the circumstances test where the contracting parties' present subjective desire is the controlling factor. Since the Federal Circuit's holding is contrary to federal law and the policies and precedents of this Court, this Court should grant this petition for a writ of certiorari.

1. *Elimination of Presumption of Validity and Improper Shifting of Burden of Proof*

The Federal Circuit stated that "RFR has not provided this court with any basis to assign error to the district court's determination that the terms on the quotation form became part of the contract." (App. 9a). But RFR did show the district court was incorrect because the only document containing indemnity terms – the quotation – was not an offer that could be accepted as a matter of law. But the Federal Circuit wanted something more – precisely what is not clear – and thereby in effect shifted the burden to RFR to prove some unknown negative to maintain RFR's patent rights. Under 35 U.S.C. § 282, patents are presumed to be valid. *See KSR Int'l Co. v. Teleflex Inc.*, 127 S. Ct. 1727, 1737 (U.S. 2007) ("By direction of

35 U.S.C. § 282, an issued patent is presumed valid."). The Federal Circuit's shifting of the burden to RFR violates this principle. It should have been the burden of Rex-Hide to show that RFR's patent rights had been extinguished, and not RFR's burden to prove that its patent rights survived some extinguishing factor not articulated by the Federal Circuit.

2. *Application of new standard*

The district court determined that indemnity existed and patent rights were extinguished even though there was not an offer and acceptance of indemnity terms according to established concepts of contract law. In other words, even though the quotation was not an offer that could be accepted by the purchase order, the district court nonetheless held that it was accepted because Rex-Hide, and then Century, wanted there to be indemnity during the RFR patent litigation so it would extinguish RFR's patent rights.[3]

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[3] When parties to a putative contract agree on what the contractual terms were, usually there is not a dispute that winds up in court – unless the rights of third parties are involved, as in the instant case. If parties to a contract could agree or disagree at will and independently of the facts that a contract either did or did not exist, then third parties or successors in interest potentially affected by the contract terms would be unable to rely on contract law to plan their affairs. Further, RFR has standing to challenge the existence of the contract because it is a potential indemnitor of Century. *See Carrollton-Farmers Branch Independent School Dist. v. Federal Deposit Ins. Corp.*, 776 F. Supp. 1180, 1184 (D. Tex. 1991) ("the prerequisites for standing are met if a party shows it has personally suffered some actual or threatened injury that can be traced to the challenged action and is likely to be redressed by a favorable decision." (citing) *Phico Ins. Co. v. Providers Ins. Co.*, 888 F.2d 663, 665 (10th Cir. 1989).

This established a new type of standard, based more on the totality of the circumstances and the present subjective desires of the contracting parties, rather then upon established concepts of contract law.[4] By not reversing the district court, the Federal Circuit sanctioned this new standard by which documents relating to patent rights are construed. As stated, under this new standard, the present subject intent of the contracting parties appears to control, rather than

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[4] There was absolutely no *objective* evidence introduced during trial that the indemnity language on the back of the quotation form formed part of any agreement between Century and Rex-Hide. The testimony from various witnesses during trial related to what the witnesses' alleged *subjective* state of mind was and what their *subjective* intent was (as opposed to *objective* evidence). Texas law is clear that subject state of mind and subjective intent is irrelevant to the issue of whether the indemnity language was part of a binding agreement. *See Wesleyan Corp. v. USPS*, 2005 U.S. Dist. LEXIS 558, 4-6 (D. Tex. 2005) ("The determination of a meeting of the minds, and thus offer and acceptance, is based on the objective standard of what the parties said and did and not on their subjective state of mind. Unexpressed subjective intent is irrelevant."); *Barger v. Sutton*, 2003 U.S. Dist. LEXIS 17798, 6 (D. Tex., 2003) (same language as in first sentence quoted from *Wesleyan Corp., supra*, quoting *Copeland v. Alsobrook*, 3 S.W.3d 598, 604 (Tex. App. - San Antonio 1999, pet denied). Other courts are in accord. *See, e.g., Asia Pac. Indus. Corp. v. Rainforest Cafe, Inc.*, 380 F.3d 383, 385 (8th Cir. 2004) ("Minnesota follows the objective theory of contract formation, under which an outward manifestation of assent is determinative, rather than a party's subjective intent." [citing] *TNT Props., Ltd. v. Tri-Star Developers LLC*, 677 N.W.2d 94, 102 (Minn. Ct. App. 2004); *Luden's Inc. v. Local Union No. 6 of the Bakery, Confectionery & Tobacco Workers Int'l Union*, 28 F.3d 347, 361 (3d Cir. 1994) ("[O]ur conclusion is based on the "objective" in lieu of the "subjective" theory of contract formation. The subjective theory has been roundly rejected by courts, commentators, and, of greatest moment, by this Court, in favor of the objective one.").

the intent of the parties as measured under established objective concepts of contract law.

The Federal Circuit has the right in certain circumstances to declare that an issue will be determined under Federal Circuit law. For example, in *Group One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041 (Fed. Cir. 2001), the Federal Circuit held that the offer for sale in a section 102(b) on sale bar would not be determined under state contract law, but rather under the law of the Federal Circuit. The Federal Circuit stated that "[b]ecause of the importance of having a uniform national rule regarding the on-sale bar, we hold that the question of whether an invention is the subject of a commercial offer for sale is a matter of Federal Circuit law, to be analyzed under the law of contracts as generally understood."). *Id.* at 1047. However, when the Federal Circuit claims an issue as its own, it should not develop the area in a manner that is inconsistent with this Court's policies and precedents. In the instant case, it is clear that the Federal Circuit has approved a district court holding that is inconsistent with this Court's policies and precedents.

First, since the new standard clearly has escaped the moorings of established concepts of contract law, it is more in the nature of a totality of the circumstances test, where factors other than a strict offer and acceptance are taken into consideration. However, replacing predictable contract law with an amorphous "totality of the circumstances" test concerning patent rights is inconsistent with this Court's policy of increasing the predictability of patent rights. For example, in *Pfaff, supra,* this Court eliminated the Federal Circuit's "totality of the circumstances"

analysis of the on-sale bar and replaced it with a two-part test: "First, the product must be the subject of a commercial offer for sale. . . . Second, the invention must be ready for patenting." *Id.* at 67.

The Federal Circuit's sanctioning of the district court's holding in this case also is inconsistent with its own recent efforts to make patent rights more predictable. In *Group One, Ltd., supra*, the Federal Circuit clarified what constitutes a commercial offer for sale in the on sale bar context. The Federal Circuit stated as follows:

> Applying established concepts of contract law, rather than some more amorphous test, implements the broad goal of *Pfaff*, which, in replacing this court's "totality of the circumstances" test with more precise requirements, was to bring greater certainty to the analysis of the on-sale bar. *See* 525 U.S. at 65-66 & n.11, 48 U.S.P.Q.2D (BNA) at 1646 & n.11. Courts are quite accustomed to and comfortable with determining whether a particular communication or series of communications amounts to an offer in the contract sense, and that type of determination is well established in law.

The Federal Circuit then stated the precise rule that "[o]nly an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under § 102(b)." If this rule of contract law is applied to the facts of the instant case, then it is

clear that the quotation was not an offer because Century could **not** "make [the quotation] into a binding contract by simple acceptance."

This Court increased the predictability of patent rights by eliminating the totality of the circumstances test in the on sale bar context. The Federal Circuit increased the predictability of patent rights by applying established concepts of contract law to this Court's "commercial offer for sale" requirement. RFR respectfully submits that it is inconsistent for the Federal Circuit to now abandon established concepts of contract law when interpreting whether certain documents create circular contractual indemnity and extinguish patent rights.[5]

In *Group One, supra,* the Federal Circuit stated:

> In any given circumstance, who is the offeror, and what constitutes a definite offer, requires looking closely at the language of the proposal itself. Language suggesting a legal offer, such as

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[5] Indeed, if contractual terms were determined based on what witnesses said they subjectively thought after the fact (particularly in light of the collusive and sham situation that occurred during the trial in this case) the law of contacts would cease to exist in any predictable form. This would be particularly true for third parties, such as RFR, who analyze documents and plan their conduct based upon the meaning of such documents under accepted contract law. Courts have recognized that commercial relations depend upon a predictable body of objective contract law. *See, e.g., Universal Studios v. Viacom Inc.*, 705 A.2d 579, 588 (Del. Ch. 1997) ("The necessity of preserving predictability and stability in commercial transactions is fostered by this objective view of contracts....").

> "I offer" or "I promise" can be contrasted with language suggesting more preliminary negotiations, such as "I quote" or "are you interested." Differing phrases are evidence of differing intent, but no one phrase is necessarily controlling. *Id.* §§ 24, 26. Fortunately, as earlier noted, there is a substantial body of general contract law, widely shared by both state and federal courts, to which courts can resort in making these determinations. *See generally, e.g.*, Arthur Linton Corbin, Corbin on Contracts (1964); John D. Calamari & Joseph M. Perillo, The Law of Contracts, (4th ed. 1998).

This "substantial body of general contract law, widely shared by both state and federal courts," uniformly indicates that the quotation in the instant case was not an offer. This Court has noted the general requirement that a valid contract requires an offer and acceptance. *See Barnes v. Gorman*, 536 U.S. 181, 185 (U.S. 2002) ("Just as a valid contract requires offer and acceptance of its terms...."). The Restatement (Second) of Contracts § 24 defines an offer as "the manifestation of willingness to enter into a bargain, so made as to justify another person in understanding that his assent to that bargain is invited and will conclude it." The Federal Circuit in *Group One, supra*, stated that "[o]nly an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under § 102(b)." In *Linear Tech. Corp. v. Micrel, Inc.*, 275 F.3d 1040, 1048 (Fed. Cir. 2001), the Federal Circuit stated that "[t]he UCC does not define 'offer,' so we will look to the common law to guide our inquiry." The Federal

Circuit then quoted and cited the Restatement (Second) of Contracts § 24 definition quoted above, and also Richard A. Lord, Williston on Contracts § 4:13, at 367 (4th ed. 1990) (explaining that "in order for an offer to exist, it must constitute a manifestation communicated to the offeree so as to justify his understanding that by assenting a bargain will be concluded"). In *Plumtree Software, Inc. v. Datamize, LLC*, 473 F.3d 1152, 1161 (Fed. Cir. 2006) the Federal Circuit stated that "[a] commercial offer is 'one which the other party could make into a binding contract by simple acceptance (assuming consideration).'" (citing *Group One, supra*), and "[u]nder this standard, it is clear that the offeror must be legally bound to perform the patented method if the offer is accepted." (citing *Linear Tech., supra*). Further, the Texas, Ohio, and other authorities cited previously are all in accord.

The Federal Circuit's rejection of this substantial body of contract law when determining whether patent rights have been extinguished due to circular contractual indemnity substantially decreases the predictability and uniformity of patent rights and should not be allowed to stand. RFR respectfully requests that this Court grant this petition for certiorari to establish the rule that documents related to contract rights, which also substantively affect patent rights, should be interpreted in accordance with established concepts of contract law, and not by a totality of the circumstances test where the contracting parties' present subjective desire is the controlling factor.

CONCLUSION

The petition for a writ of certiorari should be granted.

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(any footnotes trail end of each document)

2005-1587
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

RFR INDUSTRIES, INC.,
Plaintiff-Appellant,

v.

REX-HIDE INDUSTRIES, INC.,
Defendant/Third Party Plaintiff-Appellee,

v.

CENTURY STEPS, INC. (doing business as Century Precast),
Third Party Defendant-Appellee.

March 23, 2007, Decided

NOTICE: THIS DECISION WAS ISSUED AS UNPUBLISHED OR NONPRECEDENTIAL AND MAY NOT BE CITED AS PRECEDENT. PLEASE REFER TO FEDERAL RULES OF APPELLATE PROCEDURE RULE 32.1 GOVERNING THE CITATION TO UNPUBLISHED OPINIONS.

COUNSEL: Robert G. Oake, Jr., Oake Law Office, of Allen, Texas, argued for plaintiff-appellant.

W. Todd Hoeffner, Hoeffner & Bilek, L.L.P., of Houston, Texas, argued for defendant/third party plaintiff-appellee. With him on the brief was Thomas E.

Bilek.

John R. Emerson, Haynes & Boone LLP, of Dallas, Texas, argued for third party defendant-appellee. With him on the brief was Benjamin L. Mesches.

JUDGES: Before MICHEL, Chief Judge, SCHALL and PROST, Circuit Judges.

OPINION BY: PROST

OPINION

PROST, *Circuit Judge.*

RFR Industries, Inc. ("RFR") appeals from a final judgment of the United States District Court for the Northern District of Texas. RFR appeals the district court's determination that RFR cannot recover damages for patent infringement from Defendant/Third Party Plaintiff Rex-Hide Industries, Inc. ("Rex-Hide"). RFR also appeals the district court's grants of attorney fees to Rex-Hide and Third Party Defendant Century Steps, Inc. ("Century"). Finally, RFR appeals the district court's entry of a permanent injunction prohibiting RFR from pursuing certain claims against Century in arbitration and ordering RFR to file all future related actions in the Northern District of Texas in Judge Kinkeade's court. We *affirm-in-part*, *reverse-in-part*, *vacate-in-part*, and *remand* for further proceedings consistent with this opinion.

BACKGROUND

RFR is the assignee of two patents relating to an

embedded railway track system, U.S. Patent No. 5,577,662 ("'662 patent") and U.S. Patent No. 5,535,947 ("'947 patent"). The '662 patent is directed to a railway system that utilizes a rubber product referred to by the parties as "flangeway filler," and the '947 patent is directed to a method of installing the flangeway filler.

In 1998, RFR sued Century for patent infringement, alleging that Century's sale of flangeway filler infringed the '662 and '947 patents. In 2000, RFR and Century entered into a written agreement to settle their dispute ("the 2000 settlement agreement"). The 2000 settlement agreement contained a number of provisions relevant to this appeal. First, Century agreed not to make, use, sell, offer to sell, or import flangeway filler that infringed the '662 or '947 patents, and Century consented to the entry of a permanent injunction prohibiting it from doing any of these activities. Second, Century agreed to pay a sum of money to RFR. Third, Century agreed to purchase a specified amount of flangeway filler from RFR, and the 2000 settlement agreement provided Century with an express license under the '662 and '947 patents to use, sell, and offer to sell any flangeway filler it had purchased from RFR.

Fourth, the 2000 settlement agreement provided that RFR was releasing Century from RFR's patent infringement claims in the underlying lawsuit. The agreement provided, however, that notwithstanding RFR's release of Century, "nothing in this Agreement shall be construed as a release by RFR of Rex-Hide . . . or any other extruder that manufactured for Century [Flangeway] Filler ('Century Extruders') . . . ." RFR further agreed "to indemnify and hold harmless Century . . . from any claim made against Century . . .

by any Century Extruder as a result of any RFR claim against any Century Extruder." Finally, in a section of the 2000 settlement agreement entitled "FUTURE DISPUTE RESOLUTION," RFR and Century agreed to submit to binding arbitration all claims arising out of the 2000 settlement agreement except for "motions for contempt for allegedviolation of the permanent injunction or . . . complaints for patent infringement," which were to be filed in federal district court.

On March 29, 2004, RFR filed this action against Rex-Hide, a custom rubber extruder who had been Century's main supplier of the allegedly infringing flangeway filler. The complaint alleged that Rex-Hide's manufacture and sale of flangeway filler to Century constituted induced and contributory infringement of the '662 and '947 patents. Rex-Hide then filed a third-party complaint against Century, alleging that Century was required to indemnify it against RFR's infringement claims. Century, in turn, filed a cross-claim against RFR, alleging that the 2000 settlement agreement required RFR to indemnify it. Finally, RFR filed a counterclaim against Century, seeking a declaration that the 2000 settlement agreement did not require RFR to indemnify Century against Rex-Hide's claim.

On January 13, 2005, the district court granted partial summary judgment to Century, holding that the 2000 settlement agreement required RFR to indemnify Century against Rex-Hide's claim. *RFR Indus. v. Rex-Hide Indus.*, No. 3:02-CV-1444-K, 2005 U.S. Dist. LEXIS 44813, *2-3 (N.D. Tex. Jan. 13, 2005) ("*Summary Judgment Order*"). On August 11, 2005, after a bench trial, the court determined that Century

was required to indemnify Rex-Hide against RFR's claims pursuant to (1) the flangeway filler sales contract between Rex-Hide and Century and (2) the Texas Business & Commerce Code. *RFR Indus., Inc. v. Rex-Hide Indus., Inc.*, No. 3:02-CV-1444-K, 2005 U.S. Dist. LEXIS 16496, 2005 WL 2036393, at *2 (N.D. Tex. Aug. 11, 2005) ("*Circular Indemnity Order*"). The court also held that RFR's duty to indemnify Century and Century's duty to indemnify Rex-Hide "creates a circular indemnity that extinguishes RFR's patent-infringement claims against Rex-Hide." *Id.*

In addition, the district court considered Century's and Rex-Hide's applications for attorney fees and expenses. In its *Summary Judgment Order*, the court held that RFR's duty to indemnify Century included paying any attorney fees and expenses incurred by Century while defending against Rex-Hide's claim. 2005 U.S. Dist. LEXIS 44813 at *5-6. In its *Circular Indemnity Order*, the court held that Century's duty to indemnify Rex-Hide included paying any attorney fees and expenses incurred by Rex-Hide while defending against RFR's claims. 2005 U.S. Dist. LEXIS 16496, 2005 WL 2036393, at *2. In addition, the court held that RFR's duty to indemnify Century required RFR to pay Century for Rex-Hide's recovery from Century of Rex-Hide's attorney fees and expenses. *Id.* Finally, in yet another order, the court determined that Rex-Hide was entitled to $ 222,860.21 in attorney fees and expenses and Century was entitled to $ 79,679.24 in attorney fees and expenses. *RFR Indus. v. Rex-Hide Indus.*, No. 3:02-CV-1444-K, 2005 U.S. Dist. LEXIS 44809, *7 (N.D. Tex. Aug. 11, 2005) ("*Attorney Fees Order*").

While all of this was going on in the district court, the parties were involved in a number of collateral disputes. When RFR first refused to indemnify Century in this action, Century withheld the remaining payments it owed RFR under the 2000 settlement agreement. Century also refused to pay RFR for some flangeway filler it had ordered from RFR pursuant to the 2000 settlement agreement. RFR responded to Century's nonpayment in three ways. First, RFR filed an arbitration demand seeking both payment of the owed settlement amounts and payment for the flangeway filler Century had ordered from RFR. Second, in October 2004 RFR filed a new patent infringement suit against Century, alleging that Century's nonpayment for and subsequent resale of the flangeway filler constituted infringement of the '662 and '947 patents.[1] Third, RFR filed a petition to show cause in the 1998 lawsuit, alleging that Century's nonpayment for and subsequent resale of the flangeway filler it had ordered from RFR violated the permanent injunction entered in that case.

All of the collateral disputes led the district court to take action in this case. On August 11, 2005, the district court entered a preliminary injunction prohibiting RFR from pursuing its arbitration claims and ordering RFR "to file any and all future actions relating to the RFR patents, or the RFR-Century Settlement Agreement in the Northern District of Texas in Judge Kinkeade's Court."[2] *RFR Indus. v. Rex-Hide Indus.*, No. 3:02-CV-1444-K, 2005 U.S. Dist. LEXIS 44812, *7 (N.D. Tex. Aug. 11, 2005) ("*Preliminary Injunction Order*"). The court later made the injunction permanent. *RFR Indus. v. Rex-Hide Indus.*, No. 3:02-CV-1444-K, 2005 U.S. Dist. LEXIS 16496, at *7 (N.D. Tex. Jan. 28, 2006)

("*Amended Judgment*"). Finally, on June 27, 2006, while RFR's appeal to this court was pending, the district court on its own initiative issued a memorandum opinion clarifying the scope of the permanent injunction and requesting leave of this court to make the clarification. *RFR Indus. v. Rex-Hide Indus.*, No. 3:02-CV-1444-K, 2006 U.S. Dist. LEXIS 95774 (N.D. Tex. June 27, 2006) ("*Clarification Opinion*").

DISCUSSION

RFR makes, essentially, four arguments on appeal. First, RFR argues that the district court's determination that RFR could not recover patent infringement damages from Rex-Hide was erroneous because Century was not required to indemnify Rex-Hide against RFR's infringement claims. Second, RFR argues that the district court's determination that RFR could not recover damages from Rex-Hide was erroneous because RFR was not required to indemnify Century against Rex-Hide's claim. Third, RFR argues that the district court erred by awarding attorney fees and expenses to Century and Rex-Hide. Finally, RFR argues that the district court improperly entered a permanent injunction prohibiting RFR from pursuing its arbitration claims and ordering RFR to file any future related claims in the Northern District of Texas in Judge Kinkeade's court.

A

RFR first takes issue with the district court's determination that Century was required to indemnify Rex-Hide. On August 11, 2005, after a bench trial, the court determined that Century was required to

indemnify Rex-Hide against RFR's infringement claims under both (1) the Rex-Hide/Century flangeway filler sales contract and (2) the Texas Business & Commerce Code. *Circular Indemnity Order*, 2005 U.S. Dist. LEXIS 16496, 2005 WL 2036393, at *2.

Specifically, the district court found that Century provided Rex-Hide with specifications for the flangeway filler. Rex-Hide, in turn, gave Century a price quotation form, which stated the terms under which Rex-Hide would manufacture the flangeway filler for Century. This form contained the following indemnification provision:

In the event any of the parts produced under this contract infringe or are claimed to infringe any patent, copyright, or trademark, you agree to indemnify and save us harmless from any and all damages, losses or expenses, direct or indirect, to which we may be subjected on that account including but not limited to losses resulting from judgments, attorneys' fees or settlements with or without your consent.2005 U.S. Dist. LEXIS 16496, [WL] at *1. After receiving Rex-Hide's quotation form, Century sent Rex-Hide a purchase order for the flangeway filler, which was accepted by Rex-Hide. The district court found that Century's purchase order did not contradict the terms of Rex-Hide's quotation form and that the indemnification provision on Rex-Hide's quotation form became part of the contract between Rex-Hide and Century. 2005 U.S. Dist. LEXIS 16496, [WL] at *2. The court also determined that the indemnification provision required Century to indemnify Rex-Hide against RFR's patent infringement claims. *Id.*

RFR argues that the district court erred in two respects. First, RFR argues that the indemnification provision was not part of the contract between Rex-Hide and Century. Specifically, RFR contends that the quotation form was not an offer that could be accepted by Century because the quotation form reserved the final right of acceptance to Rex-Hide. But even if the quotation form was not an offer, RFR has not provided this court with any basis to assign error to the district court's determination that the terms on the quotation form became part of the contract. Accordingly, we reject RFR's first argument.

Second, RFR argues that even if the indemnification provision became part of the contract, Rex-Hide is only entitled to indemnification if the parts Rex-Hide produced directly infringed the patents, but not if Rex-Hide is found to be liable for contributory or induced infringement. RFR points out that the indemnification provision only requires Century to indemnify Rex-Hide "[i]n the event any of the parts produced under th[e] contract infringe or are claimed to infringe any patent." 2005 U.S. Dist. LEXIS 16496, [WL] at *1. RFR argues that Rex-Hide is not entitled to indemnification under this provision because RFR does not claim that the parts Rex-Hide produced directly infringed RFR's patents.

We agree with the district court, however, and reject RFR's second argument. Parts don't infringe a patent by themselves; it is Rex-Hide's making and selling the parts that can give rise to a claim of infringement. Accordingly, the provision is best read to protect Rex-Hide from a claim of infringement arising from its making and selling the flangeway filler. RFR has not

provided us with a persuasive basis to reverse the district court's determination that the provision encompasses claims of indirect infringement. Therefore, we affirm the district court's determination that Century was required to indemnify Rex-Hide under the terms of the flangeway filler sales contract.[3]

B

BRFR next takes issue with the district court's determination that the 2000 settlement agreement required RFR to indemnify Century. The 2000 settlement agreement provided that RFR would "indemnify and hold harmless Century. . . from any claim made against Century. . . by any Century Extruder as a result of any RFR claim against any Century Extruder." The agreement specifically identified Rex-Hide as a "Century Extruder." The district court held that the 2000 settlement agreement was unambiguous and that it required RFR to indemnify Century against Rex-Hide's claim. *Summary Judgment Order*, 2005 U.S. Dist. LEXIS 44813 at *4-5.

On appeal, RFR argues that this provision should not be given effect because it conflicts with another provision of the 2000 settlement agreement, which states that "nothing in this Agreement shall be construed as a release by RFR of Rex-Hide. . . ." We agree with the district court, however, and reject RFR's argument. It is apparent from the 2000 settlement agreement that the parties anticipated that RFR might sue Rex-Hide, who might, in turn, sue Century. And the agreement explicitly protects Century in such a situation. It is only in combination

with Century's duty to indemnify Rex-Hide that RFR is precluded from recovering damages from Rex-Hide. This is not a "release" of Rex-Hide; for instance, had RFR chosen to do so, RFR could have pursued injunctive relief against Rex-Hide.

C

Next, RFR assigns error to the district court's grants of attorney fees and expenses to Century and Rex-Hide. RFR first argues that neither Century nor Rex-Hide is entitled to any attorney fees and expenses. We reject RFR's argument because RFR has not provided this court with a persuasive basis to reverse the district court's determination that, under Texas law, the indemnity provision in the 2000 settlement agreement entitled Century to recover attorney fees and expenses for defending against Rex-Hide's claim. Nor has RFR provided this court with a persuasive basis to reverse the district court's determination that the indemnity provision in the Rex-Hide/Century sales contract entitled Rex-Hide to recover attorney fees or expenses for defending against RFR's claims.

In the alternative, RFR argues that under Texas law Rex-Hide and Century may not recover fees and expenses incurred in the process of establishing their respective rights to indemnification. Accordingly, RFR argues that the district court improperly allowed Rex-Hide and Century to recover attorney fees and expenses insofar as those fees and expenses were incurred while establishing their rights to indemnification. On appeal, Rex-Hide and Century do not take issue with RFR's interpretation of the law. Nevertheless, Rex-Hide and Century assert two bases

for affirming the district court's grants of attorney fees and expenses.

First, Rex-Hide and Century argue that they should be able to recover attorney fees and expenses for establishing their rights to indemnification because establishing their rights to indemnification essentially eliminated their liabilities as effectively as if Rex-Hide had obtained a judgment of non-infringement or invalidity. Were we to accept this argument, however, it would mean that a party could always recover attorney fees and expenses for establishing its right to indemnification. And Rex-Hide and Century do not dispute RFR's assertion that a party may not recover fees and expenses for establishing the party's right to indemnification. We therefore reject this argument.

During oral argument, Rex-Hide suggested a second basis for affirming the district court's grants of attorney fees and expenses. Specifically, Rex-Hide contended that the district court reduced Rex-Hide's and Century's awards to take into account the fees and expenses Rex-Hide and Century incurred while establishing their rights to indemnification. We cannot affirm the awards on this basis. It is true that the district court made a downward adjustment of 30% of Rex-Hide's and Century's requested amounts; however, the district court did not state that it was reducing Rex-Hide's or Century's award because some of the fees were incurred while establishing the right to indemnification. Instead, the district court cited "the time and amount involved, the nature of the case, fee awards in similar cases and that the case only required a one day bench trial." *Attorney Fees Order*, 2005 U.S. Dist. LEXIS 44809 at *5. Thus, it appears that the

district court improperly allowed Rex-Hide and Century to recover fees for establishing their respective rights to indemnification.[4] Consequently, we vacate the district court's *Attorney Fees Order* and remand to the district court.

On remand, the district court should determine the portion of Rex-Hide's requested fees and expenses incurred while establishing Rex-Hide's right to indemnification from Century and adjust Rex-Hide's award accordingly. Similarly, the district court should determine the portion of Century's requested fees and expenses incurred while establishing Century's right to indemnification under the 2000 settlement agreement and adjust Century's award accordingly.[5]

D

Next, RFR appeals the district court's entry of a permanent injunction. The permanent injunction, as elucidated by the district court in its *Clarification Opinion*, prohibits RFR from pursuing its arbitration claims and directs RFR to bring all future actions against Century or Rex-Hide related to the '662 and '947 patents in the Northern District of Texas in Judge Kinkeade's court. 2006 U.S. Dist. LEXIS 95774 at *5-6. We reverse the permanent injunction in its entirety.

We deal first with the portion of the injunction prohibiting RFR from pursuing its arbitration claims. The district court held that RFR had substantially invoked the judicial machinery, and thus had waived arbitration for its claim for payment of the settlement amounts owed by Century and its claim for payment for the flangeway filler Century had ordered from RFR.

RFR argues that it should be allowed to submit those claims to arbitration because it has not invoked the judicial machinery with respect to those claims. In response, Century argues that RFR waived its right to arbitration because some of the issues raised by RFR's claims overlap with some of the issues resolved by the district court, for example, whether RFR had a duty under the 2000 settlement agreement to indemnify Century.

We do not conclude that RFR's actions in this case constituted a waiver of arbitration with respect to its two claims arising under the 2000 settlement agreement: its claim for payment of the settlement amounts owed by Century, and its claim for payment for the flangeway filler Century had ordered from RFR. RFR has not attempted to litigate these specific claims that it now seeks to arbitrate and, therefore, arbitration may be available for these claims.[6]

Because RFR may seek arbitration on its claims arising under the 2000 settlement agreement, we also reverse the portion of district court's injunction directing RFR to file all future related actions in the Northern District of Texas in Judge Kinkeade's court. While this court understands and appreciates the district court's desire to prevent duplicative litigation, we anticipate that any court or arbitrator confronted with these parties and issues in the future will enter such orders as necessary to prevent unnecessary costs, delays, and inconsistent judgments.

CONCLUSION

We affirm the district court's determination that RFR

cannot recover damages for patent infringement from Rex-Hide. We vacate the grants of attorney fees and remand for the district court to recalculate the amounts of the awards. We reverse the permanent injunction.[7]

Footnote(s)

[1]RFR later attempted to dismiss this suit under Fed. R. Civ. P. 41, however, the district court granted judgment on the pleadings to Century. *See RFR Indus. v. Century Steps, Inc.*, Nos. 2005-1610, 2006-1285, 477 F.3d 1348, 2007 U.S. App. LEXIS 3382, 2007 WL 489485, at *2 (Fed. Cir. Feb. 16, 2007). On appeal, this court held that RFR dismissed its suit pursuant to Fed. R. Civ. P. 41(a)(1)(i) when RFR filed a notice of dismissal before Century served its answer on RFR. 2007 U.S. App. LEXIS 3382, [WL] at *4.

[2]Judge Kinkeade presided over this case in the district court.

[3]The district court also held that Century was required to indemnify Rex-Hide under Texas Business & Commerce Code § 2.312(c), which states that "a buyer who furnishes specifications to the seller must hold the seller harmless against any [claim of infringement or the like] that arises out of compliance with the specifications." 2005 U.S. Dist. LEXIS 16496, [WL] at *2. Because we affirm the district court's determination that Century was required to indemnify Rex-Hide under the terms of the flangeway filler sales contract, we need not decide whether indemnification was also required under the Texas Business & Commerce Code.

[4]Indeed, that the *Attorney Fees Order* mentioned that the bench trial only lasted one day suggests that the district court improperly included time spent establishing the right of indemnification since the bench trial only involved the issue of indemnification.

[5]RFR asserts that the district court abused its discretion by awarding fees and expenses because Rex-Hide and Century submitted inadequate records. In light of our remand, we need not address this argument, and we anticipate that any issues regarding deficiencies in Rex-Hide's and Century's records, if there are any, will be resolved by the district court in the process of recalculating the awards.

[6]Of course, RFR cannot revisit issues in arbitration that have been conclusively decided in this appeal. For instance, RFR may not reopen the issue of whether the 2000 settlement agreement required RFR to indemnify Century.

[7]RFR's motion to remand this case to a different district court judge is denied.

CAUSE NO. 3:02-CV-1444-K

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF TEXAS, DALLAS DIVISION

RFR INDUSTRIES, INC.,
Plaintiff

vs.

REX-HIDE INDUSTRIES, INC.,
Defendant and Third-Party Plaintiff

vs.

CENTURY STEPS, INC., d/b/a CENTURY PRECAST, Third-Party Defendant

August 9, 2005, Decided
August 11, 2005, Filed

COUNSEL: For RFR Industries Inc, Plaintiff: Robert G Oake, Jr, Law Office of Robert G Oake Jr, Allen, TX.

For Rex-Hide Industries Inc, Defendant: Thomas E Bilek, Hoeffner & Bilek, Houston, TX; Joe Kendall, Provost Umphrey Law Firm -- Dallas, Dallas, TX.

For Century Steps Inc d/b/a Century Precast, ThirdParty Defendant: John Russell Emerson, Haynes & Boone -- Dallas, Dallas, TX.

JUDGES: ED KINKEADE, UNITED STATES DISTRICT JUDGE.

OPINION BY: ED KINKEADE

OPINION

MEMORANDUM OPINION and ORDER

This is a patent infringement case brought by RFR Industries, Inc. ("RFR") against Rex-Hide Industries, Inc. ("Rex-Hide"). This matter came before the Court for a one-day bench trial on the issue of third-party Century Steps Inc.'s ("Century") duty to indemnify Rex-Hide. Having received and considered the evidence presented and having heard the testimony of witnesses and the argument of counsel, the Court holds that Century must indemnify Rex-Hide and that this creates circular indemnity. The Court also makes the following findings of fact and conclusions of law which preclude any judgment against Rex-Hide.

I. Background

RFR Industries, Inc. ("RFR") sued Rex-Hide Industries, Inc. ("Rex-Hide") for patent infringement. Rex-Hide then sued Century for indemnity under 1) contract and 2) the *Texas Business & Commerce Code § 2.312(c)*. After Rex-Hide sued Century, Century filed a cross-claim against RFR for a declaratory judgment that the 2000 settlement agreement between RFR and Century required RFR to indemnify and defend Century in this lawsuit. RFR then filed a counterclaim against Century for a declaratory judgment that it was not required to indemnify and defend Century in this lawsuit.

On January 12, 2004, the Court granted Century's Motion for Summary Judgment that RFR was required

to indemnify and defend Century and that RFR was required to pay Century's attorneys' fees. The Court then held a one-day bench trial on Rex-Hide's claim for statutory and contractual indemnity on April 4, 2005.

II. Findings of Fact

1. RFR sells flangeway filler. Flangeway filler is a strip of flexible material, such as rubber, that fits between the rails and adjacent panels at a railroad grade-crossing.

2. RFR is an assignee of *United States Patent 5,577,622* and *United States Patent 5,535,947*.

3. RFR does not manufacture its own flangeway filler. RFR purchased flangeway filler from Rex-Hide.

4. Century also sells flangeway *filler*. Like RFR, Century does not manufacture its own flangeway filler and purchased flangeway filler from Rex-Hide.

5. Century provided to Rex-Hide all the specifications and drawings necessary for Rex-Hide to manufacture the flangeway filler.

6. Rex-Hide did not alter or modify Century's specifications and drawings.

7. Once Century approved samples of the filler, the filler was considered to be made in compliance with Century's specifications and drawings.

8. Before it manufactured the flangeway filler for Century, Rex-Hide presented Century with a quotation form that articulated the terms under which Rex-Hide would manufacture the flangeway filler for Century.

9. Section 8 of the quotation form provided:

> In the event any of the parts produced under this contract infringe or are claimed to infringe any patent, copyright, or trademark, you agree to indemnify and save us harmless from any and all damages, losses or expenses, direct or indirect, to which we may be subjected on that account including but not limited to losses resulting from judgments, attorneys' fees or settlements with or without your consent.

10. After receiving the quotation form, Century ordered flangeway filler from Rex-Hide by issuing a purchase order. Century's purchase order did not contradict, nor was it inconsistent with, Rex-Hide's quotation form.

11. By issuing the purchase order, Century accepted Section 8, along with all the terms and conditions in the quotation

contracts. Thus, the Rex-Hide quotations became the contracts between Rex-Hide and Century for the manufacture of the flangeway filler.

12. After Rex-Hide manufactured the flangeway filler for, Century, it drop-shipped the filler product to Century.

III. Conclusions of Law

1. *Section 2.312(c) of the Texas Business & Commerce Code* -- which requires that "a buyer who furnishes specifications to the seller must hold the seller harmless against any such [infringement] claim that arises out of compliance with the specifications" -- requires Century to indemnify Rex-Hide against RFR's patent infringement claims.

2. Century accepted the terms of Rex-Hide's quotation form. Therefore, the quotation form constitutes a binding contract between Rex-Hide and Century for the sale of flangeway filler.

3. Section 8 of the quotation form requires Century to indemnify Rex-Hide against RFR's patent-infringement claims.

4. The statutory and contractual indemnity obligations owed by Century to Rex-Hide cover all of claims of infringement alleged by RFR against Rex-Hide.

5. Century's indemnity obligations require Century to reimburse Rex-Hide for its attorneys' fees and expenses in this case.

6. RFR's indemnity obligation to Century, previously resolved by the Court's January 13, 2005 Memorandum Opinion and Order, includes a duty to pay Century's attorneys' fees and expense in this case, which includes Rex-Hide's recovery against Century.

IV. Conclusion

The Court's ruling in this Memorandum Opinion Order that Century must indemnify Rex-Hide combined with this Court's January 13, 2005 ruling that RFR must indemnify Century from any Rex-Hide claims against Century arising from any RFR claim against Rex-Hide creates a circular indemnity that extinguishes RFR's patent-infringement claims against Rex-Hide.

SO ORDERED.

Signed August *9th*, 2005.

ED KINKEADE

UNITED STATES DISTRICT JUDGE

AMENDED JUDGMENT

As a result of this Court's Memorandum Opinion and Order entered on August 11, 21005, and the Court's Order of January 12, 2005 granting Century's Motion for Summary Judgment against RFR, it is hereby **ORDERED, ADJUDGED** and **DECREED** as follows:

1) The Court's holding in its Memorandum Opinion Order of August 11, 2005, that Century must indemnify Rex-Hide pursuant to statutory and contractual indemnity, combined with this Court's January 13, 2005

ruling that RFR must indemnify Century from any Rex-Hide claims against Century arising from any RFR claim against Rex-Hide, creates a circular indemnity that extinguishes RFR's patent-infringement claims against Rex-Hide. Therefore, RFR shall take nothing by its patent-infringement suit.

2) Century is required to indemnify Rex-Hide for its attorneys' fees and expenses in this action.

3) RFR is required to indemnify Century for its attorneys' fees and expenses in this action as well as for Rex-Hide's recovery against Century.

4) Century is ordered to pay Rex-Hide's reasonable attorneys' fees of $ 193,166.75 and expenses of $ 29,693.46 for a total of $ 222,860.21.

5) RFR is ordered to pay Century's reasonable attorneys' fees of $ 77,155 and expenses of $ 2,524.24 for a total of $ 79,679.24.

6) RFR is to pay Century a total of $ 302,539.45, which is Rex-Hide's judgment against Century plus Century's reasonable attorney's fees and expenses.

7) RFR has waived arbitration against Century by (1) filing its declaratory judgment counterclaim against Century in this case; (2) filing a separate motion to show cause in Case No. 3:98-CV-988; and (3) filing a separate patent-infringement action against Century in Case No. 3:04-CV-2300.

8) The Court **ORDERS** that the preliminary injunction entered on August 11, 2005, be made **PERMANENT**.

9) There are additional claims for relief presented by Rex-Hide against RFR for patent invalidity and unenforceability.

10) The Court specifically certifies that there is no just reason for delay of the entry of final judgment as to RFR's patent-infringement claims against Rex-Hide, Rex-Hide's indemnity claims against Century, Century's indemnity claims against RFR, and Century's request for a permanent injunction.

11) Costs are awarded to Century and Rex-Hide under 28 U.S.C. § 1920. RFR shall pay Century and Rex-Hide all costs permitted by law.

12) Post-judgment interest shall be payable on all of the above amounts allowable by law from the date of entry of this judgment until paid. See 28 U.S.C. § 1961.

13) The Court orders execution to issue for this Judgment.

14) All other relief not expressly granted herein is denied.

15) The Court directs the clerk to enter this, a **FINAL JUDGMENT**, as to RFR's patent-infringement claims against Rex-Hide, Rex-Hide's indemnity claims against Century, Century's indemnity claims against RFR, and Century's request for a permanent injunction.

SO ORDERED.

Signed February *28th*, 2006.

ED KINKEADE

UNITED STATES DISTRICT JUDGE

2005-1587

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

RFR INDUSTRIES, INC.,
Plaintiff-Appellant,

v.

REX-HIDE INDUSTRIES, INC.,
Defendant/Third Party Plaintiff-Appellee,

v.

CENTURY STEPS, INC. (doing business as Century Precast),
Third Party Defendant-Appellee.

April 18, 2007, Decided

April 18, 2007, Filed

NOTICE: THIS DECISION WAS ISSUED AS UNPUBLISHED OR NONPRECEDENTIAL AND MAY NOT BE CITED AS PRECEDENT. PLEASE REFER TO FEDERAL RULES OF APPELLATE PROCEDURE RULE 32.1 GOVERNING THE CITATION TO UNPUBLISHED OPINIONS.

COUNSEL: For Century Steps, Inc. (doing business as Century Precast), Third Party Defendant-Appellee: EMERSON, JOHN R., PRINCIPAL ATTORNEY, MESCHES, BENJAMIN L., OF COUNSEL ATTORNEY, Haynes & Boone, LLP, Dallas, TX.

For RFR Industries, Inc., Plaintiff-Appellant: OAKE, JR., ROBERT G., PRINCIPAL ATTORNEY, Allen, TX.

For Rex-Hide Industries, Inc., Defendant/Third Party Plaintiff-Appellee: HOEFFNER, WARREN TODD, PRINCIPAL ATTORNEY, BILEK, THOMAS E., OF COUNSEL ATTORNEY, Hoeffner & Bilek, Houston, TX.

JUDGES: Before Michel, Chief Judge, Schall, Circuit Judge, and Prost, Circuit Judge.

OPINION

ORDER

A petition for rehearing having been filed by the Appellant,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED.

The mandate of the court will issue on April 25, 2007.